

Appendix I

GLOSSARY

**Backup
Withholding**

The withholding of tax that applies to reportable prizes or payments to employees and non-employees when the recipient fails to provide a taxpayer identification number obtained by filing Form W-9. See Chapters 5 and 6.

Bingo

A game of chance played with cards that are printed with five rows of five squares each. Participants place markers over randomly called numbers on the cards in an attempt to form a pre-selected pattern such as a horizontal, vertical, or diagonal line, or all four corners. The first participant to form the pre-selected pattern wins the game. See Chapter 5.

Church

Certain characteristics are generally attributed to churches. These attributes of a church have been developed by the IRS and by court decisions. They include: distinct legal existence; recognized creed and form of worship; definite and distinct ecclesiastical government; formal code of doctrine and discipline; distinct religious history; membership not associated with any other church or denomination; organization of ordained ministers; ordained ministers selected after completing prescribed courses of study; literature of its own; established places of worship; regular congregations; regular religious services; Sunday schools for the religious instruction of the young; schools for the preparation of its ministers. The IRS uses a combination of these characteristics, together with other facts and circumstances, to determine whether an organization is considered a church for federal tax purposes. A convention or association of churches is treated like a church for federal tax purposes.

Compensation

Includes all forms of cash and non-cash payments or benefits provided in exchange for services, including salary and wages, bonuses, severance payments, deferred payments, retirement benefits, fringe benefits, and other financial arrangements or transactions such as personal vehicles, meals, housing, personal and family educational benefits, below-market loans, payment of personal or family travel, entertainment, and personal use of the organization's property. Compensation includes payments and other benefits provided to both employees and independent contractors in exchange for services.

GLOSSARY, Continued

Conflict of Interest Policy	A policy that defines conflict of interest, identifies the classes of individuals within the organization covered by the policy, facilitates disclosure of information that can help identify conflicts of interest, and specifies procedures to be followed in managing conflicts of interest. A conflict of interest arises when a person in a position of authority over an organization, such as an officer, director, or manager, can benefit financially from a decision he or she could make in such capacity, including indirect benefits such as to family members or businesses with which the person is closely associated. For this purpose, a conflict of interest does not include questions involving a person's competing or respective duties to the organization and to another organization, such as by serving on the boards of both organizations, that do not involve a material financial interest of, or benefit to, such person.
Corporate Director	As classified by statute, a director of a corporation in his/her capacity as director is not an employee of the corporation. See Chapter 6.
Corporate Officer	As classified by statute, an officer of a corporation is an employee unless he or she performs no services, or only minor services, and neither receives nor is entitled to receive any remuneration, directly or indirectly. See Chapter 6.
Disqualified Person	For purposes of section 4958; Form 990, Parts IX and X; and Schedule L (Form 990 or 990-EZ), <i>Transactions With Interested Persons</i> , Parts I and II, any person (including an individual, corporation, or other entity) who was in a position to exercise substantial influence over the affairs of the applicable tax-exempt organization at any time during a 5-year period ending on the date of the transaction. Persons who hold certain powers, responsibilities, or interests (such as a voting member of the governing body, the president or chief executive officer, and the treasurer or chief financial officer), are among those who are in a position to exercise substantial influence over the affairs of the organization. See Chapter 3.

GLOSSARY, Continued

Employee	<p>Under common-law rules, generally anyone who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed. Additionally, any individual treated as an employee pursuant to IRC section 3121(d).</p> <p>To determine whether an individual is an employee or independent contractor under the common law, the relationship of the worker and the organization for whom he or she is working must be examined. All evidence of control and independence must be considered. Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control, financial control, and the type of relationship of the parties. See Chapter 6.</p>
Employee Identification Number (EIN)	<p>A nine-digit number that IRS assigns in the following format: xx-xxxxxxx. The IRS uses the number to identify taxpayers that are required to file various tax and information returns. EINs are used by employers, sole proprietors, corporations, partnerships, associations, trusts, estates of decedents, government agencies, certain individuals, and other business entities. See Chapter 6.</p>
Excess Benefit Transaction	<p>Any transaction in which an economic benefit is provided by a 501(c)(3), (4), or (29) organization, directly or indirectly, to or for the use of a disqualified person (as defined in section 4958 of the Code), and the value of the economic benefit provided by the organization exceeds the value of the consideration received by the organization (including services).</p>
Excise Tax	<p>A tax imposed on the manufacture, sale, or use of goods, on an occupation or activity, or on a disqualified person or organization manager involved in an excess benefit transaction. See Chapters 3 and 5.</p>

GLOSSARY, Continued

Governing Body	The group of one or more persons authorized under state law to make governance decisions on behalf of the organization and its shareholders or members, if applicable. The governing body is, generally speaking, the board of directors (sometimes referred to as board of trustees) of a corporation or association, or the trustee or trustees of a trust (sometimes referred to as the board of trustees).
Gross Receipts	The gross amount the organization received from all sources without reduction for any costs or expenses. An organization should keep supporting documents that show the amounts and sources of its gross receipts. See Chapters 7 and 8.
Group Ruling (group exemption)	A ruling or determination, which is embodied in a group exemption letter, issued to a central or parent organization (generally a state, regional, or national organization) that one or more subordinate organizations (usually a post, unit, chapter or local) are exempt from federal income tax by virtue of being subordinate organizations of the central or parent organization under its general supervision or control. See Chapter 10.
Highest Compensated Employee	For purposes of Form 990, one of the five highest compensated employees of the organization (including employees of a disregarded entity of the organization) other than current officers, directors, trustees, or key employees, whose aggregate reportable compensation from the organization and related organizations is greater than \$100,000. The five highest compensated employees are determined by the amounts of reportable compensation they received during the calendar year ending with or within the organization's tax year.
Independent Contractor	A person who is compensated for providing services to an organization, but is not treated as an employee of that organization. Generally, a worker is an independent contractor if the employer has the right to control or direct only the result of the work done, and not the means and methods of accomplishing the result. See Chapter 6 and Publication 1779.
Insider	A person having a personal and private interest in the activities of the organization. See Chapter 3.

GLOSSARY, Continued

Inurement	The doctrine that prohibits a tax-exempt organization from engaging in any activities which will permit any of the organization's income or assets to unduly benefit a person who has some close relationship to the organization (i.e., an insider). See Chapter 3.
Key Employees	<p>For purposes of Form 990, an employee of an organization (other than an officer, director, or trustee) who meets all three of the following tests applied in the following order:</p> <ol style="list-style-type: none">(1) \$150,000 Test. Receives reportable compensation from the organization and all related organizations in excess of \$150,000 for the calendar year ending with or within the organization's tax year.(2) Responsibility Test.<ol style="list-style-type: none">a. Has responsibilities, powers or influence over the organization as a whole similar to those of officers, directors, or trustees;b. Manages a discrete segment or activity of the organization that represents 10 percent or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; orc. Has or shares authority to control or determine 10 percent or more of the organization's capital expenditures, operating budget, or compensation for employees.(3) Top 20 Test. Is one of the 20 employees (that satisfy the \$150,000 Test and Responsibility Test) with the highest reportable compensation from the organization and related organizations for the calendar year ending with or within the organization's tax year.
Legislation	Includes action by Congress, any state legislature, any local council, or similar governing body with respect to acts, bills, resolutions, or similar items, or actions by the public in a referendum, ballot initiative, constitutional amendment, or similar procedure. It does not include actions by executive, judicial, or administrative bodies. See Chapter 3.

GLOSSARY, Continued

Lobbying Activities All activities intended to influence foreign, national, state, or local legislation. Such activities include direct lobbying (attempting to influence the legislators) and grassroots lobbying (attempting to influence legislation by influencing the general public). A 501(c)(3) organization can engage in some lobbying, as long as it is not a substantial part of the organization's activities. See Chapter 3.

Lottery In general, any game or method for distributing prizes among persons who have paid (or promised consideration) for a chance to win prizes, usually determined by matching the numbers or symbols on tickets to those drawn from a lottery wheel or other receptacle, or by the outcome of an event. See Chapter 5.

Officer For purposes of Form 990, unless otherwise provided (e.g., signature block in Part II, principal officer in heading) a person elected or appointed to manage the organization's daily operations, such as a president, vice-president, secretary, treasurer, and, in some cases, board chair. The officers of an organization are determined by reference to its organizing document, bylaws, or resolutions of its governing body, or as otherwise designated consistent with state law, but at a minimum include those officers required by applicable state law. For purposes of Form 990, treat the organization's top management official and top financial official as officers.

Pickle Jars A form of pull-tabs that get their name from the empty pickle jars in which the cards are placed. See Chapter 5.

Political Campaign Activity Directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office. A candidate is one who offers himself or is proposed by others for public office. A section 501(c)(3) organization is absolutely prohibited from engaging in political campaign activity. Political campaign activity does not include any activity to encourage participation in the electoral process, such as voter registration or voter education, provided that the activity does not directly or indirectly support or oppose any candidate. See Chapter 3.

GLOSSARY, Continued

Private Benefit The doctrine that prohibits a tax-exempt organization from engaging in activities which will substantially benefit the private interest of any individual or organization. See Chapter 3.

Private Foundation A section 501(c)(3) tax-exempt charitable organization that does not qualify as a public charity. Generally, a private foundation is a charitable organization that is funded from one source, its ongoing funding is in the form of investment income, and it makes grants for charitable purposes to other persons or organizations. There is a rebuttable presumption that a charitable entity is a private foundation. See Chapter 2.

Pull-tabs Games in which an individual places a wager by purchasing preprinted cards that are covered with pull-tabs. Winners are revealed when the individual pulls back the sealed tabs on the front of the card and compares the patterns under the tabs with the winning patterns preprinted on the back of the card. Instant bingo, mini bingo, and similar scratch-off cards are all types of pull-tabs. See Chapter 5.

Quid Pro Quo Contribution A contribution made by a donor partially in exchange for goods or services. See Chapter 10.

Reasonable Compensation The value that would ordinarily be paid for like services by like enterprises under like circumstances.

GLOSSARY, Continued

Related Organization

For purposes of Form 990, an organization, including a nonprofit organization, a stock corporation, a partnership or limited liability company, a trust, and a governmental unit or other government entity, that stands in one or more of the following relationships to the filing organization at any time during the tax year.

- **Parent:** an organization that controls the filing organization.
- **Subsidiary:** an organization controlled by the filing organization.
- **Brother/Sister:** an organization controlled by the same person or persons that control the filing organization.
- **Supporting/Supported:** an organization that is (or claims to be) at any time during the organization's tax year (i) a supporting organization of the filing organization within the meaning of section 509(a)(3), if the filing organization is a supported organization within the meaning of section 509(f)(3); (ii) or a supported organization, if the filing organization is a supporting organization.
- **Sponsoring Organization of a VEBA:** an organization that establishes or maintains a section 501(c)(9) voluntary employees' beneficiary association (VEBA) during the tax year.
- **Contributing Employer of a VEBA:** an employer that makes a contribution or contributions to the VEBA during the tax year.

The organization must determine its related organizations for purposes of completing Form 990, Parts VI (Governance), VII (Compensation), VIII (Statement of Revenue) and X (Balance Sheet), Schedule D (Form 990), Part V, Schedule J (Form 990), and Schedule R (Form 990). See instructions for those parts and schedules for related organization reporting requirements.

GLOSSARY, Continued

Religious Organization

An organization that is organized and operated exclusively for a religious purpose or purposes under section 501(c)(3). The term includes churches as well as other organizations that do not carry out the functions of a church, such as mission organizations, speakers' organizations, non-denominational ministries, ecumenical organizations, or faith-based social agencies. See Chapter 2.

Statute of Limitations

The deadline before which an organization can amend its tax returns to claim a credit or refund and the IRS can assess additional tax. See Chapters 2 and Chapter 7.

Unrelated Trade or Business

Any regularly carried on trade or business, the conduct of which is not substantially related to the exercise or performance by the organization of its charitable, educational, or other purpose or function constituting the basis for its exemption. See Publication 598 and the instructions to Form 990-T.

Volunteer

A person who serves the organization without compensation. "Compensation" for this purpose includes tips and noncash benefits, except for:

- Reimbursement of expenses under a reimbursement or other expense allowance arrangement in which there is adequate accounting to the organization,
 - Working condition fringe benefits described in section 132,
 - Liability insurance coverage for acts performed on behalf of the exempt organization, and
 - *De minimis* fringe benefits.
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Wager

The amount risked by the person placing the bet, not the prize amount. See Chapter 5.

GLOSSARY, Continued

Withholding	The withholding of income tax from prizes or employee's pay by the employer. The regular withholding rate for gaming prizes is 25 percent. Employers determine how much federal income tax to withhold from an employee's pay based on the employee's marital status, the number of withholding allowances the employee claims, any additional amount the employee wants to be withheld, and any exemptions from withholding the employee claims, as listed on Form W-4. See Chapters 5 and 6.
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